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USOECD

PASS: CEA, TREAS, FRB

E.O. 11652: N/A
TAGS: OECD, ECON
SUBJECT: JUNE 6-7 MEETING OF WORKING GROUP ON SHORT-TERM
ECONOMIC PROSPECTS (STFC)

REF: (A) DES/NI(77)1; (B) DES/NI(77)3

1. SUMMARY AND MAIN CONCLUSIONS: AT ITS JUNE 6-7 MEETING,
STFC ENGAGED IN DETAILED REVIEW OF GROWTH, INFLATION AND
CURRENT ACCOUNT PROSPECTS THROUGH 1977 AND HAD MORE GEN-
ERAL AND QUALITATIVE EXCHANGE OF VIEWS ON LIKELY DEVELOP-
MENTS IN FIRST HALF OF 1978. STFC CAME TO FOLLOWING MAIN
CONCLUSIONS (DETAILS SHOWN IN TABLES, PARA 13):

(A) AGGREGATE OECD AREA REAL GNP GROWTH LIKELY TO BE
MODERATE IN 1977. SECRETARIAT FORECAST OF OECD AREA
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GROWTH SLIGHTLY MORE OPTIMISTIC THAN THAT IMPLIED BY
TOTAL OF INDIVIDUAL COUNTRY FORECASTS (4.2 PERCENT VS.
3.9 PERCENT);

(B) JAPAN, FRG AND CANADA PROJECT CONSIDERABLY HIGHER
GROWTH IN 1977 THAN FORESEEN BY SECRETARIAT;

(C) WHILE MOST COUNTRIES DID NOT PRESENT QUANTITATIVE FORECASTS FOR FIRST HALF OF 1978, THEY DID NOT DISAGREE WITH SECRETARIAT ASSESSMENT THAT OECD AREA GROWTH WOULD DECELERATE DURING THIS PERIOD. NOR DID THEY SERIOUSLY QUESTION SECRETARIAT ASSESSMENT THAT, WITH EXCEPTION OF U.S., CAPACITY UTILIZATION WOULD NOT ATTAIN LEVEL WHICH WOULD INDUCE EXPANSION OF PRODUCTIVE CAPACITY;

(D) SMALL COUNTRIES EXPECTED TO HAVE LOWER GROWTH AND HIGHER INFLATION IN 1977 THAN BIG 7;

(E) ACCORDING TO COUNTRIES' AND SECRETARIAT'S FORECASTS, AVERAGE ANNUAL OECD AREA INFLATION RATE WILL NOT DECLINE FROM 1976 LEVEL (8.1 PERCENT CPI RISE) IN 1977 (ALTHOUGH SOME DECELERATION EXPECTED DURING YEAR). MOREOVER, IN SECRETARIAT VIEW, RISK IS ON UPSIDE;

(F) COUNTRIES AND SECRETARIAT AGREED THAT OECD AREA CURRENT ACCOUNT DEFICIT COULD REACH \$29-30 BILLION IN 1977. HOWEVER, IMPORTANT DISCREPANCIES EMERGED BETWEEN SECRETARIAT'S TRADE AND CURRENT ACCOUNT FORECASTS AND THOSE OF CERTAIN COUNTRIES (E.G., JAPAN).

2. SECRETARIAT WILL REPORT CONCLUSIONS OF MEETING AT JUNE 14-15 EPC PLENARY. NEXT STFC MEETING WILL TAKE PLACE IN AUTUMN, 1977; AT THIS MEETING, SECRETARIAT PLANS TO PRESENT POST MORTEM ANALYSIS OF PERFORMANCE RECORD OF PAST FORECASTS FOR DISCUSSION BY STFC.

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SHORT-TERM PROSPECTS; DOMESTIC OUTLOOK IN 1977 AND FIRST HALF OF 1978

3. PROSPECTS FOR GNP GROWTH: COUNTRIES AND SECRETARIAT AGREED THAT OECD AREA GNP GROWTH WOULD BE MODERATE THROUGH 1977. U.S. (MUNRO) INDICATED THAT U.S. REAL GNP WAS PROJECTED TO RISE BY 5-3/4 - 6 PERCENT BETWEEN FOURTH QUARTER OF 1976 AND FOURTH QUARTER OF 1977 AND THAT THIS GROWTH RATE THROUGH THE YEAR IMPLIED YEAR-ON-YEAR INCREASE OF ABOUT 5 PERCENT. U.S. ADDED THAT GROWTH RATE WOULD DECELERATE SOMEWHAT IN FIRST HALF OF 1978. SECRETARIAT AGREED WITH U.S. ASSESSMENT AND NOTED THAT RISK IN U.S. AND SECRETARIAT GROWTH FORECASTS COULD WELL LIE ON UPSIDE.

4. JAPANESE, GERMANS AND CANADIANS PROJECTED CONSIDERABLY STRONGER GROWTH THAN SECRETARIAT. JAPANESE ARGUED THAT FISCAL STIMULUS AND MONETARY RELAXATION WOULD SUPPORT GROWTH IN FIRST HALF OF 1977 AND THAT PRIVATE DEMAND

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WOULD CARRY THE BALL FOR REMAINDER OF THE YEAR. SECRE-
TARIAT INSISTED THAT FLAGGING BUSINESS CONFIDENCE WOULD
CONTINUE TO DEPRESS PRIVATE SPENDING PROPENSITIES. FRG
REITERATED ARGUMENTS MADE AT JUNE 3 ECONOMIC AND DEVELOP-
MENT REVIEW COMMITTEE (EDRC) EXAMINATION OF GERMANY (SEE
SEPTTEL) TO SUPPORT ITS CASE FOR GNP GROWTH OF 4.5 PERCENT
THIS YEAR. CANADIANS TRIED TO PRESENT THEIR CASE, BUT
WERE CUT SHORT AT END OF FIRST DAY'S SESSION BY IMPATIENT
SECRETARIAT.

5. FRANCE PRESENTED REVISED FORECASTS WHICH INCLUDED
LOWER GDP GROWTH (3.5 PERCENT) AND HIGHER INFLATION RATE
(8.7 PERCENT) THAN CONTAINED IN PREVIOUS OFFICIAL FORE-
CASTS, BUT OFFERED NO EXPLANATION FOR REVISION. ITALIANS
STRESSED THAT RESTRICTIVE POLICY MEASURES IMPLEMENTED IN
EARLY 1977 AND IN 1976 WOULD HOLD DOWN GROWTH OF DOMESTIC
DEMAND AND THAT MODEST EXPECTED RISE (2 PERCENT) IN GDP
WOULD BE LED BY IMPROVEMENT IN REAL FOREIGN BALANCE.
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6. WITH FEW EXCEPTIONS, COUNTRIES DID NOT PROVIDE QUANTITATIVE FORECASTS FOR FIRST HALF OF 1978. NOR DID THEY RESPOND TO SECRETARIAT'S REQUEST FOR QUALITATIVE ASSESSMENT OF MAJOR RISKS WHICH COULD INFLUENCE GROWTH IN THIS PERIOD. HOWEVER, STFC DID NOT REGISTER COLLECTIVE OBJECTION TO SECRETARIAT'S VIEW THAT EARLY 1978 WOULD WITNESS DECELERATION IN OECD AREA GNP GROWTH.

7. IN CONNECTION WITH DISCUSSION OF PROSPECTS TO MID-1978, STFC CONSIDERED SECRETARIAT'S PAPER ON TRENDS IN CAPACITY GROWTH AND UTILIZATION RATES (REF B). SEVERAL COUNTRY DELS UNDERLINED TECHNICAL DIFFICULTIES INVOLVED IN ATTEMPTS TO MEASURE CAPACITY AND CAPACITY UTILIZATION RATES, BUT DID NOT (WITH NOTABLE EXCEPTION OF FRG AND JAPAN) QUESTION SECRETARIAT'S CONCLUSION THAT ONLY IN U.S. WAS UTILIZATION RATE LIKELY TO BE SUFFICIENTLY HIGH BY MID-1978 TO INDUCE EXPANSION OF CAPACITY. U.S. NOTED THAT, DESPITE EXPECTED HIGH DEGREE OF CAPACITY UTILIZATION, SERIOUS SUPPLY BOTTLENECKS NOT LIKELY TO EMERGE. (SECRETARIAT INVITED COUNTRIES TO SUBMIT TECHNICAL COMMENTS ON CAPACITY UTILIZATION PAPER AND MADE VAGUE REFERENCE TO ITS INTENTION TO MAKE FURTHER USE OF PAPER.)

8. GNP GROWTH IN 1977 OF SMALLER OECD COUNTRIES EXPECTED TO BE SUBSTANTIALLY BELOW THAT OF BIG SEVEN. SECRETARIAT FORECASTS AGGREGATE SMALL COUNTRY GNP GROWTH OF 2.7 PERCENT IN CONTRAST TO 4.2 PERCENT PROJECTED FOR LARGE COUNTRIES. ON BASIS OF NATIONAL FORECASTS, GROWTH GAP BETWEEN LARGE AND SMALL COUNTRIES REMAINS, WITH LARGE COUNTRIES PROJECTING 4.5 PERCENT GNP INCREASE; SMALL COUNTRIES, RISE OF 3 PERCENT.

WAGES AND PRICES

9. ON AGGREGATE LEVEL, NATIONAL AND SECRETARIAT FORELIMITED OFFICIAL USE

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CASTS INDICATED THAT INFLATION RATE IN 1977 WILL NOT COME DOWN IN 1977. HOWEVER, ITALIANS NOTED OBJECTIVE OF REDUCING ANNUAL RATE OF PRICE INCREASES TO 10-12 PERCENT BY FIRST HALF OF 1978. FRENCH STATED GOAL OF LOWERING INFLATION RATE TO 6.8 PERCENT IN FIRST HALF OF 1978. U.K. INDICATED THAT ANNUAL RATE OF PRICE INCREASE (GDP DEFLATOR) COULD COME DOWN TO 7.5 PERCENT IN FIRST HALF OF 1978 ON ASSUMPTION THAT (A) DOLLAR/POUND EXCHANGE RATE HOLDS AT \$1.7 AND (B) WAGES RISE BY 10 PERCENT BETWEEN AUGUST 1, 1977 (I.E., END OF PHASE II WAGE AGREEMENT) AND END OF

YEAR. HOWEVER, MOST COUNTRIES DID NOT LOOK FORWARD TO FURTHER REDUCTIONS IN UNDERLYING RATE OF INFLATION (AS MEASURED BY INCREASE IN UNIT LABOR COSTS). U.S. NOTED THAT UNDERLYING RATE OF INFLATION (RISE IN PRICES, LESS FOOD AND OIL COMPONENTS) WOULD HOVER IN 6-6.5 PERCENT REGION THROUGHOUT 1977 AND THAT CPI MIGHT INCREASE BY 6 PERCENT ON AVERAGE FOR YEAR AS WHOLE.

10. SECRETARIAT STATED VIEW THAT RISK IN INFLATION FORECAST APPEARED TO BE ON UPSIDE NOTING THAT (A) ITS FORECAST THAT NON-OIL COMMODITY PRICES WILL NOT RETURN TO PEAK LEVELS REACHED IN MARCH, 1977 DEPENDED ON SLOW EXPANSION OF DEMAND AND ON NON-RECURRENCE OF SUPPLY "ACCIDENTS" IN REMAINDER OF FORECAST PERIOD; (B) FOOD PRICES REMAIN HIGH; (C) PRICE RISES EARLY IN YEAR COULD ENTRAIN WAGE INCREASES

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LATER ON. SECRETARIAT WAGE FORECAST FOR 1977 ASSUMES THAT IN COUNTRIES USING INCOMES POLICIES, OFFICIAL WAGE/ PRICE GOALS WILL BE ATTAINED; THIS MAY NOT ACTUALLY HAPPEN.

TRADE AND CURRENT ACCOUNT PROSPECTS

11. SECRETARIAT AND COUNTRIES PROJECTED MODERATE GROWTH OF TRADE VOLUMES IN 1977. SECRETARIAT FORECAST 6.5 PERCENT RISE IN EXPORT VOLUMES AND 6 PERCENT GROWTH OF IMPORT VOLUMES, WHILE COUNTRIES' PROJECTIONS IMPLIED RESPECTIVE RISE OF 6.25 PERCENT AND 6.5 PERCENT IN THESE MAGNITUDES. HOWEVER, SIMILARITY OF AGGREGATE FIGURES CONCEALED SIGNIFICANT DIFFERENCES FOR INDIVIDUAL COUNTRIES. IN PARTICULAR, SECRETARIAT FORECAST 5-3/4 PERCENT INCREASE IN U.S. EXPORT VOLUME, IN CONTRAST WITH U.S. PROJECTION OF 2.25 PERCENT RISE (DIFFERENCE LAY IN MORE HIGHER SECRETARIAT FORECAST OF U.S. AGRICULTURAL EXPORTS AND OF GROWTH OF LIMITED OFFICIAL USE

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U.S. EXPORTS TO NON-OIL LDC'S; SECRETARIAT INTENDS TO REVISE DOWNWARD ITS FORECAST FOR U.S. EXPORT VOLUME GROWTH). IN ADDITION, SECRETARIAT PROJECTS SLOWER GROWTH OF U.K. IMPORT VOLUMES THAN DOES HMG DUE TO FACT THAT SECRETARIAT ASSUMES THAT NORTH SEA OIL WILL SUBSTITUTE FOR IMPORTS, WHILE U.K. ASSUMES THAT ABOUT ONE-HALF OF NORTH SEA OUTPUT WILL BE EXPORTED.

12. SECRETARIAT AND COUNTRIES FORECAST OECD AREA CURRENT ACCOUNT DEFICIT OF \$29-30 BILLION IN 1977. HOWEVER, IN INDIVIDUAL CASES, SIGNIFICANT DIFFERENCES EXIST BETWEEN NATIONAL AND SECRETARIAT FORECASTS. SECRETARIAT FORECASTS JAPANESE CURRENT ACCOUNT SURPLUS OF \$6.0 BILLION FOR 1977. IN CONTRAST, JAPANESE INSISTED THAT SLOW GROWTH OF EXPORTS AND ACCELERATION OF IMPORTS DURING REMAINDER OF 1977 WOULD GENERATE RETURN TO CURRENT ACCOUNT BALANCE BY END OF YEAR. (JAPANESE DID NOT PROVIDE CURRENT ACCOUNT FORECAST FOR YEAR AS A WHOLE.) ITALIANS AND FRENCH PROJECTED LOWER CURRENT ACCOUNT DEFICITS IN 1977 THAN DID SECRETARIAT. FRG FORECAST OF \$2.0 BILLION SURPLUS STOOD IN CONTRAST TO \$1.5 BILLION FIGURE THEY PRESENTED AT JE 3 EDRC EXAMINATION (SEE SEPTTEL). DISCUSSION OF CURRENT ACCOUNT PROSPECTS FOR FIRST HALF OF 1978 WAS MINIMAL. SECRETARIAT DISCOURAGED DETAILED TREATMENT OF SMALL COUNTRY CURRENT ACCOUNT OUTLOOK AND FINANCING, NOTING THAT TEMPORARY WORKING PARTY WOULD TAKE UP THIS SUBJECT ON JUNE 8 (TO BE REPORTED BY SEPTTEL).

13. TABLES

TABLE 1

GNP

COUNTRIES' AND SECRETARIAT FORECASTS
PERCENTAGE CHANGES FROM PREVIOUS YEAR

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1977

COUNTRIES(A) SECRETARIAT

CANADA	3.9	3.1
UNITED STATES	5.0	5.1
JAPAN	6.2	5.0
FRANCE (GDP)	3.5	3.5
GERMANY	4.5	3.9
ITALY (GDP)	2.0	2.0
UNITED KINGDOM (GDP)	0.9	1.1
SEVEN MAJOR COUNTRIES	4.5	4.2
EEC	3.1	3.0
OECD EUROPE	3.1	2.9
TOTAL SMALLER EUROPEAN COUNTRIES(B)	3.0	2.7
TOTAL OECD	4.2	3.9

(A) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES
WHEN COUNTRIES' FORECASTS WERE NOT AVAILABLE.

(B) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY.

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TABLE 2

CONSUMER PRICES
A COMPARISON BETWEEN COUNTRIES' AND SECRETARIAT FORECASTS
PERCENTAGE CHANGES FROM PREVIOUS YEAR

1977

COUNTRIES'(A) SECRETARIAT

CANADA	7.2	7.5
UNITED STATES(B)	6.0	5.9
JAPAN	8.8	8.7
FRANCE	8.7	9.0
GERMANY(B)	3.8	3.8
ITALY	20.0(B)	21.0
UNITED KINGDOM(B)	14.1	15.2
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SEVEN MAJOR COUNTRIES	7.7	7.8
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EEC	9.4	9.7
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OECD EUROPE	9.9	10.2
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TOTAL SMALLER EUROPEAN COUNTRIES(C)	10.4	10.6
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TOTAL OECD	8.2	8.3
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(A) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES
WHEN COUNTRIES' FORECASTS WERE NOT AVAILABLE.

(B) NATIONAL ACCOUNTS IMPLICIT PRICE DEFLATOR.

(C) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY.

TABLE 3

FORECAST TRADE VOLUMES AND EXPORT MARKETS
(PERCENTAGE CHANGES OF SEASONALLY ADJUSTED DATA
AT ANNUAL RATES)

IMPORT VOLUME

1976 TO 1977

SECRETARIAT COUNTRY

UNITED STATES	11	12.5
CANADA	5	5.5
JAPAN	6	(B)
FRANCE	5.5	2.75(A)
GERMANY	7.5	8 (A)
ITALY	3.5	3.5

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UNITED KINGDOM	2.5	5
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"BIG SEVEN" COUNTRIES	7	(B)
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TOTAL OECD	6	6.5
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(A) NATIONAL ACCOUNTS BASIS.

(B) NOT GIVEN.

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EXPORT MARKETS(A) AND EXPORT VOLUME

1976 TO 1977

SECRETARIAT COUNTRY
MARKETS EXPORTS MARKETS EXPORTS

UNITED STATES	7	5.75	6.75	2.25
CANADA	8.5	10	10.25	9
JAPAN	8.5	7.5	8.75	(C)
FRANCE	7	6.5	6.75	8.25(B)
GERMANY	7	7	5.25	7 (B)
ITALY	7	7.5	6.5	8-9
UNITED KINGDOM	7	6.25	6.75	6.25

"BIG SEVEN"

COUNTRIES	7.25	7	(C)	(C)
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TOTAL OECD	6.5	6.5	6.75	6.25
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(A) GROWTH OF MARKETS ATTRIBUTED HERE TO COUNTRY FORECASTS ARE IN FACT SECRETARIAT CALCULATIONS BASED ON COUNTRIES' FORECASTS OF IMPORT VOLUMES, AND DO NOT THEREFORE NECESSARILY CORRESPOND TO COUNTRIES' VIEWS ON MARKET GROWTH.

(B) NATIONAL ACCOUNTS BASIS.

(C) NOT GIVEN.

TABLE 4

FORECAST CHANGES IN TRADE PRICES (AVERAGE VALUES)
(PERCENTAGE CHANGES AT ANNUAL RATES;
NATIONAL CURRENCY TERMS)

EXPORT PRICE IMPORT PRICE
(AVERAGE VALUE) (AVERAGE VALUE)

1976 TO 1977 1976 TO 1977
SECRETARIAT COUNTRY SECRETARIAT COUNTRY

UNITED STATES	5.5	7.25	9	7
CANADA	7.5	8	9.5	8.75
JAPAN	6.75	4.75		
FRANCE	11	8.5	12.5	10.5
GERMANY	3.5	2	5.25	2.5
ITALY	18.5	20	16.5	17
UNITED KINGDOM	17.5	17.75	13.5	14.25

"BIG SEVEN"
COUNTRIES 8.25 9.5

TOTAL OECD 8.5 8 9.5 8.25
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TABLE 5

FORECAST BALANCES ON TRADE, INVISIBLES, & CURRENT ACCOUNT
 (U.S.\$ BILLION;
 1ST HALF 1978 AT SEASONALLY ADJUSTED ANNUAL RATES)

CURRENT BALANCE

1977
 SECRETARIAT COUNTRY

UNITED STATES	-10	-12
CANADA	- 4	- 4
JAPAN	6	
FRANCE	- 5.5	- 4
GERMANY	1.5	2
ITALY	- 1	- .5

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UNITED KINGDOM	0	- .75
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"BIG SEVEN" COUNTRIES	-13	-14
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TOTAL OECD	-29	-30
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TAGS: ECON, OECD
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Type: TE
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